

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-02 INR-10
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TO SECSTATE WASHDC 7269
INFO AMEMBASSY ANKARA
AMEMBASSY ATHENS

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DEPT PASS AID

E.O. 11652: N/A
TAGS: EFIN, EALR, CY
SUBJECT: GOC 1978 BUDGET: FINANCE MINISTER PATSALIDES CALLS
FOR SLOWER GROWTH

REF: 77 NICOSIA 3367

1. FINANCE MINISTER PATSALIDES DELIVERED HIS 1978 BUDGET ADDRESS TO HOUSE OF REPRESENTATIVES FEBRUARY 16. HE SAID ECONOMY HAS BEEN "REACTIVATED TO A SATISFACTORY EXTENT" AND DESCRIBED GROWTH IN 1977 AS REMARKABLE. HE EMPHASIZED, HOWEVER, THAT THE PROBLEMS RESULTING FROM DIVISION OF THE ISLAND STILL REMAIN. " ANY SOLUTION (TO THE CYPRUS PROBLEM) THAT WILL DIVIDE THE ECONOMY WOULD BE TANTAMOUNT TO CONDEMNING THE CYPRUS PEOPLE TO A LOW STANDARD OF LIVING." HE SAID THAT REGARDLESS OF THE KIND OF SOLUTION SOUGHT, "THE CREATION OF A STRONG ECONOMIC BASIS IS AN INDISPENSABLE PREREQUISITE, BE IT FOR A SHORT OR LONG STRUGGLE."

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2. PATSALIDES CONFIRMED THAT HE SHARES PLANNING BUREAU'S FEARS (REFTEL) THAT RECENT RAPID GROWTH MAY CAUSE ECONOMY TO OVERHEAT. GDP GROWTH WAS PLANNED TO BE 8.5 PERCENT IN 1977 HOWEVER, IT EXCEEDED 12 PERCENT. THE MINISTER POINTED OUT THAT DEMAND DURING 1977 WAS EXTREMELY HIGH DURING PERIOD WHEN EXISTING ECONOMIC RESOURCES WERE ALMOST COMPLETELY UTILIZED . HE ATTRIBUTED

THIS TO HIGH DEMAND FROM ABROAD, A RISE IN INCOMES, THE "OPTIMISTIC ENTREPRENEURIAL CLIMATE" AND THE EFFORT TO QUICKLY REACH LEVELS OF CONSUMPTION PREVAILING BEFORE THE INVASION. PRESSURE IS ALSO INCREASING IN LABOR MARKET WHERE SKILLED LABOR IS EXTREMELY SCARCE. ACCORDING TO PATSALIDES, GOC WILL REACT BY RESTRAINING DOMESTIC DEMAND PARTICULARLY FOR CONSUMER GOODS IN ORDER TO EASE PRESSURE ON BALANCE OF PAYMENTS AND PRICES. STEPS WILL ALSO BE TAKEN TO INCREASE THE SHARE OF SAVINGS IN THE "NATIONAL AVAILABLE INCOME."

3. PATSALIDES TOOK ADVANTAGE OF OCCASION TO THANK GREEK GOVERNMENT FOR ITS ECONOMIC ASSISTANCE. HE ALSO EXPRESSED "APPRECIATION OF THE AMERICAN AID PROVIDED THROUGH UNHCR".

4. SOME MEMBERS OF THE HOUSE OF REPRESENTATIVES COMMITTEE ON BUDGET AND FINANCE DISAGREED WITH PATSALIDES CALL FOR SLOW-DOWN IN ECONOMIC GROWTH. THEY DESCRIBE FEARS OF "OVERHEATING" OF THE ECONOMY AS HYPOTHETICAL AND ARGUE THAT 60-70 PERCENT OF TOTAL IMPORTS ARE FOR PERMANENT PRODUCTIVE INVESTMENT, I.W. RAW MATERIALS, CONSUMER DURABLE GOODS, AND CAPITAL INVESTMENT. IMPORTS ARE REQUIRED TO REPLACE CAPITAL GOODS AND PRODUCTIVE CAPACITY LOST BECAUSE OF THE INVASION. THEY DESCRIBE THIS "REPLACEMENT STAGE" AS A TEMPORARY PHENOMENON WHICH WILL END AS THE 40 PERCENT OF TOTAL CYPRUS HOUSEFOLDS WHICH WERE UPROOTED ARE ABLE TO RE-ESTABLISH AN "ORDINARY STANDARD OF LIVING".
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5. COPIES OF FINANCE MINISTER'S SPEECH BEING POUCHED TO ALL ADDRESSEES.
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